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The Prosperity Initiative Report Reflects Public Opinion in Calling for More Joint Public and Private Sector Action

by

David M. Brown

Immediately following the October 26 vote on the Charlottetown Accord, the Steering Group on Prosperity released the Prosperity Initiative report, *Inventing Our Future: An Action Plan for Canada's Prosperity*. The report summarizes what the Steering Group heard on its lengthy crosscountry tour of consultations, and gives a list of 54 action recommendations. Few, if any, of these recommendations are new; indeed, several people have proposed that this be the last national competitiveness report for quite some time. It is important to note, however, that the report is the result of an exercise in public consultation; it is not a body of academic investigation, nor is it the work of a professional consultant.

This may explain the report's view of economic affairs, which parallels what some view as one of the driving forces behind the defeat of the Charlottetown Accord — namely, that federal-provincial wrangling and discord should end and that politicians should act together to get on with the job of fixing the Canadian economy. The report leans strongly toward the harmonization and coordination of policies and standards across Canada as the strategy for solving competitiveness questions. Although this preference has widespread support, and greater coordination in policy is merited, too much emphasis on harmonization may tend to blur the lines of responsibility for new policymaking. Initiative may thus be less forthcoming, and experimentation with new ideas at the provincial level may be less likely.

The Context of the Report

Canada's attempt to establish a framework for prosperity and competitiveness can be viewed as a two-phase approach. The first phase unfolded over the past decade and produced an almost revolutionary agenda of structural policy reform culminating in the Canada-U.S. Free Trade Agreement and now the North American Free Trade Agreement. It is difficult to overestimate the importance of these changes for the Canadian economic landscape. Also important in this period were federal government fiscal restraint, the pursuit of price stability, privatization and deregulation, and tax reform. These policies have hastened the current process of industrial restructuring, which, unfortunately, has coincided with recession. The resulting fast pace of change has greatly reduced Canadians' sense of economic security and led to calls for rapid government action on the economy now that the Constitution is off the agenda.

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The restructuring process is likely to usher in strong economic performance for Canada in the 1990s as its maturing labor force exploits the benefits of guaranteed access to the North American market. But securing these benefits now requires that Canadians face the second phase of competitiveness challenges. The bottom line here is to ensure that the Canadian labor force is equipped with enough skills to meet the demands of higher-value-added production. There is plenty of evidence that this is not now the case, and so the policy challenges are mainly in the fields of education, labor market development and training, and social welfare policy. Three things can be noted about these policy areas:

- the problems are difficult, as they sometimes involve deep-seated cultural and institutional factors;
- they are largely under provincial jurisdiction; and
- the problems cannot be solved by government action alone.

The Structure of the Report

The Prosperity Initiative report's 54 action recommendations are grouped into four areas. The first is "innovation," which is defined broadly enough to range from technology problems to government fiscal policy. The second area consists of "learning" issues. The third area discusses what the report calls "building an inclusive society." This covers institutional changes designed to help two-earner and single-parent families reconcile parenting and work roles, the development of an aboriginal economy and the integration of aboriginals into Canadian economic life, and the redesign of the social safety net. The final action recommendation is the creation of a "Prosperity Council."

The report recommends dividing the work among the federal government, the provinces, the private sector, labor, and other groups such as consumers, various aboriginal institutions, and individuals, with the load to be distributed as follows:

- *the federal government*: the scope for unilateral federal action in the agenda is narrow, but Ottawa is asked to liberalize capital cost allowances for high-tech investments, make equity financing easier for small business, conclude the Uruguay Round of the GATT, increase funding for research into education, and establish the Prosperity Council;
- *provincial governments*: only three actions are asked of the provinces alone — two are actually to be carried out by educational institutions while the third deals with teacher quality;
- *business*: financial intermediaries are asked for further innovations in financial instruments and practices in order to increase the efficiency with which capital is allocated;
- *labor*: no recommendations are directed solely to the labor movement;
- *joint federal-provincial action*: together, these two "agents" would have a somewhat busier agenda than either of them would have alone — spending cuts and lower deficits along with greater fiscal policy coordination; faster elimination of barriers to trade within Canada; consolidation of federal and provincial technical support and business development programs; and the restructuring of income security programs to reduce disincentives to work;
- *joint business-labor action*: the report recommends moves to improve labor-management relations and employee training to help increase quality production;
- *joint government, business, and labor cooperation*: the bulk of the agenda is here, and goals would be to enhance the "over-the-counter" equity market; to help bring about a national electronic highway; to foster Canadian competitive advantage in environmentally sensitive practices; to promote an international trade strategy; and to establish a Canada-wide system of indicators of educational performance.

The proposed Prosperity Council would monitor federal and provincial fiscal policies to assess their consistency with respect to the goals of harmonization and deficit reduction. It would also report on improvements in labor-management relations, monitor the development of worker adjustment policies, and carry out competitiveness audits of new policies and regulations. The Prosperity Council's membership would be drawn from the private sector, and government financial support would end after its first three years. It would have

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a broad mandate to monitor both government and the private sector, and it would report on the progress made in implementing the recommendations.

An Assessment of the Report

The report's recommendations contain little that is new, but in some important ways they reflect public sentiments that were linked to the defeat of the Charlottetown Accord. Most important is the report's advocacy of harmonized government solutions to key competitiveness issues. Along the same lines, the report offers an almost bizarre analysis of governments' fiscal plight and the heavy tax burden on Canadians.

On the fiscal side, the report states that Canada's tax burden is too high but that this cannot be linked in any way to national social programs because they were put in place long before the taxes were increased. Rather, the report says, the deficit and tax burden must be lowered by reducing the cost of government through more efficient regulation and reduced overlap, duplication, and competition between governments. Any serious analysis of fiscal policy in Canada would show, however, that deficits and taxes cannot be reduced by relying on increasing government efficiency — as laudable as such a goal is — while failing to address the rising costs of the welfare state.

As for education and labor market policy competitiveness challenges, the relatively minor role given provincial governments here is perplexing. The educational reform section of the report is vague and oriented to harmonized, Canada-wide notions of skills recognition and performance monitoring. The report proposes few concrete measures to address the relevance of secondary school education for those who do not go on to university or college. There is little discussion of skills certification programs, apprenticeship, and other institutions that aid the transition from school to work. Education is a provincial responsibility, and every province's industrial structure and labor market is unique to some degree. Moreover, Canadians can expect to benefit from each province's experiments in educational policies in the near future. Ideas that work well can, if appropriate, be applied elsewhere. For these reasons, the emphasis on harmonization may be misplaced.

A key area for new competitiveness policy initiatives is labor adjustment and training. "Downside" labor adjustment policies aim to retrain and provide income support to workers who are displaced as a result of structural adjustment. Such policies help smooth the process of resource reallocation and thus enhance efficiency and reduce resistance to change. "Upside" labor adjustment policies help workers to acquire new, more sophisticated skills needed in the industry they are in. In these areas, the report is clear: a comprehensive nationwide strategy should be adopted with harmonized provincial standards for skills and other employment requirements. As for adjustment policies, the case for harmonization does not seem strong. Positive spillovers — that is, the underfunding of adjustment programs due to the migration of the programs' clients — are not likely to be an overriding concern here, since the mobility range of clients is not great on average.

The considerations surrounding educational and labor market skills certification are somewhat different. Certificates are intended to convey information about the individual who possesses one. The disagreement between those who argue for more harmonization of these certificates and those who do not turns largely on the extent to which different certificates covering the same skill — say, an Ontario electrician's certificate compared with one from Alberta — can acquire their own distinct reputations and thus cheaply convey an accurate quality signal. In most cases the market can easily understand differences between such qualifications and there is therefore little reason to impose harmonization. Rather, the concern is to ensure *recognition* in each jurisdiction of all jurisdictions' certifications to ensure the mobility of labor.

The Prosperity Initiative report also calls for a consolidation of federal and provincial business development and technical support programs. These sorts of programs are representative of modern-day industrial policy — as opposed to discredited policies of picking "winners" through subsidies and trade protection. Exactly what the report means by "consolidation" is unclear — but it has the same tone of harmonization that sounded in the section on educational reform and the same criticism applies here as well.

To sum up, the Prosperity Initiative report puts an excessive emphasis on harmonized approaches to resolving Canada's remaining competitiveness problems. The first phase of competitiveness policy consisted largely of a federal agenda covering nation-spanning issues such as international trade policy. The second phase must now deal with problems that are more difficult, more local in nature, and more likely to be in provincial jurisdiction. This will require that provincial governments play a more active leading role, one that provides scope for experimentation rather than the cosy, harmonized, joint action called for in the Prosperity Initiative report.

Conclusion

There is reason to be optimistic about Canadian economic performance in the 1990s. If the recovery materializes quickly, however, interest in the second phase of a competitiveness policy agenda may wane. If this happens, it would imperil Canada's ability to secure the benefits of the first phase over the longer term. The Prosperity Initiative has played a useful role in returning Canadians' focus to the economic front, but, if its excessive emphasis on harmonized approaches is followed, Canadians may miss out on some of the best solutions to the problelms of the second phase of the competitiveness challenge.

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